

## Analyzing Scientific Perspectives on the Basis of Financial Strategy in the Formation of Financial Policy

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**Abstract:** In this study, the laws, trends and opportunities of financial strategy formation have been studied on the scientific basis of the financial policy formation under conditions of Uzbekistan, the scientific perspectives of scholars and experts have been analyzed to study the formation of regional financial policy and its specific features.

**Keywords:** financial policy, financial strategy, local budget, investment, taxes.

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### Introduction

Formation of regional financial policy is not sharply different from national financial policy under conditions of Uzbekistan. One of the main reasons is the fact that Uzbekistan has an economy based on the structure of a unitary state. This is an important factor that should be taken into account when developing a regional financial strategy.

### Literature review

T. Malikov and A. Vakhobov studied about financial policy as follows in the structural link of financial policy: budget, tax, money, credit, assessment, investment, social-financial and customs policy among them.

It is assumed that the above-mentioned components of the financial policy will be applied at the scale of the national economy. The implementation of these policies in the regions is not provided by our country legislation or the state structure. For example, monetary policy is implemented in the territory of the Republic of Uzbekistan by a single body - the Central Bank, by issuing national currency. Regional Central Bank offices do not have such authority on it. Article 124 of the Constitution of the Republic of Uzbekistan stipulates that "the banking system of the Republic of Uzbekistan is managed by the Central Bank of the Republic."

Establishing such a rule means that monetary policy cannot be part of regional financial policy. Therefore, the credit policy is carried out independently by commercial banks, and separate interest rates may be introduced in commercial banks from the point of view of the region.

Custom policy cannot also be a part of regional policy in terms of being determined and carried out by central authorities. In particular, custom policy is included under the regulation of the Supreme Council Majlis on the Article 78 of the Constitution of the Republic of Uzbekistan.

In our opinion, it is appropriate to include the following in the regional financial policy and develop a strategy for their implementation from the point of view of the region:

- budget tax policy;
- credit policy;
- investment policy.

In the implementation of the budget tax policy as a part of the regional financial policy, the main

factor should be the provision of regional interest liberalization and cost distribution coming from the formation of budget revenue. In this case, central state bodies should implement regulatory measures. It is an important issue to conduct a credit and investment policy by taking into account the regional potential and its specific characteristics. Therefore, as the main direction of our research, we focus on the priorities of the regional budget and tax policy.

### **Research methodology**

The main issue of the research is that the study of the laws, trends and possibilities of financial strategy formation is extremely important under the conditions of Uzbekistan today. Methods such as observation, generalization, grouping, comparison, induction, deduction have been used in this research.

### **Analysis and results**

We will continue our research by studying the scientific works of scholars and experts in the study of the formation of regional financial policy and its specific features. Some aspects of regional financial policy have been touched upon in scientific works of Uzbek scholars. In particular, K. Asatullaev notes the following scientific conclusions about the theoretical foundations of fiscal policy: " the theoretical, methodological, scientifically based approach of the state fiscal policy that stimulates economic growth, investment activity and employment, indicating economic activity development on the basis of economic science and the real practice of developed countries. This requires taking into account the country's level of development, territorial proportions, employment, and the levers and tools that stimulate the consumption level of the population."

Fiscal policy is shown below as an important factor of economic growth. In particular, it is theoretically based on economic growth, investment activity and employment. This gives the conclusion that it retains its essence from the territorial point of view. Therefore, improving the fiscal policy in terms of territory is one of the main priorities in the conditions of economic liberalization.

E. Muminova focuses on the following in her scientific article reflecting the problems of regional development and their solutions:

- it is necessary to be based on certain principles in drawing up the socio-economic development program of the regions:
- to be purposeful in state support measures for socio-economic development of the region;
- to collect and direct resources according to the priority of the area development;
- to have an openness of control and regulation possibilities of the specified movement;
- to have an individuality of support for the development of the region;
- to have the need for adequate development of relevant infrastructure for industrial enterprises;
- to improve radically communal services in rural areas, training of personnel for industrial enterprises, providing them with raw materials and materials;
- to develop and implement regional investment programs, construction and timely commissioning of new production facilities;
- the need to radically improve the level and quality of housing and communal services;
- the need to develop measures to structurally change agricultural production in the regions, to introduce modern agro-technologies and methods of economical use of water.

D. Rakhmanov offers to evaluate the investment potential in the regional development. It is noted that it is appropriate to pay attention to the following in order to ensure a positive correlation between investments in fixed capital and gross regional products in the regions:

- to ensure that the share of investments attracted to the region is stable in relation to the gross regional product;
- to prevent sharp change trends of investments compared to last year;
- to ensure that the role of investment has to be positive in the creation of the gross regional product, to focus on ensuring that the share of the volume of investment in relation to the gross product is according to international standards (25-40%);
- to place investment taking into account natural and climate conditions;
- to implement investment projects, taking the level of specialization into account;
- to place investment in priority areas, taking into account the possibilities of competitive advantage;
- to take into account its positive impact on economic growth, rather than the volume of investments.

O. Meyliev, one of the researchers who focused on taxes in the formation of the income base of local budgets, justified his conclusions. In particular, you can get acquainted with some of his conclusions:

- it is necessary to introduce a procedure for changing the amounts of deductions from state taxes at least once every 3 years in order to ensure the stability of local budget revenues, without revising them every year;
- a system existence of allocating interbudgetary transfers from the country budget to local budgets means that they are dependent on the higher budget. This situation does not allow the full implementation of the state policy aimed at ensuring the freedom of local authorities and strengthens the control of local authorities.

B. Normatov pays attention to the factors as follows that motivate the regions in the formation of the financial policy of the regions: "complete determination of the revenue base in the regions, determining the optimal amount of tax distribution and inter-budgetary transfers between budgets of different levels, ensuring the stability of tax revenues, as well as developing a scientifically based tax revenue forecast are considered important aspects of the motivation of the regional revenue policy and occupy an important place in the assessment of the tax potential of the regions".

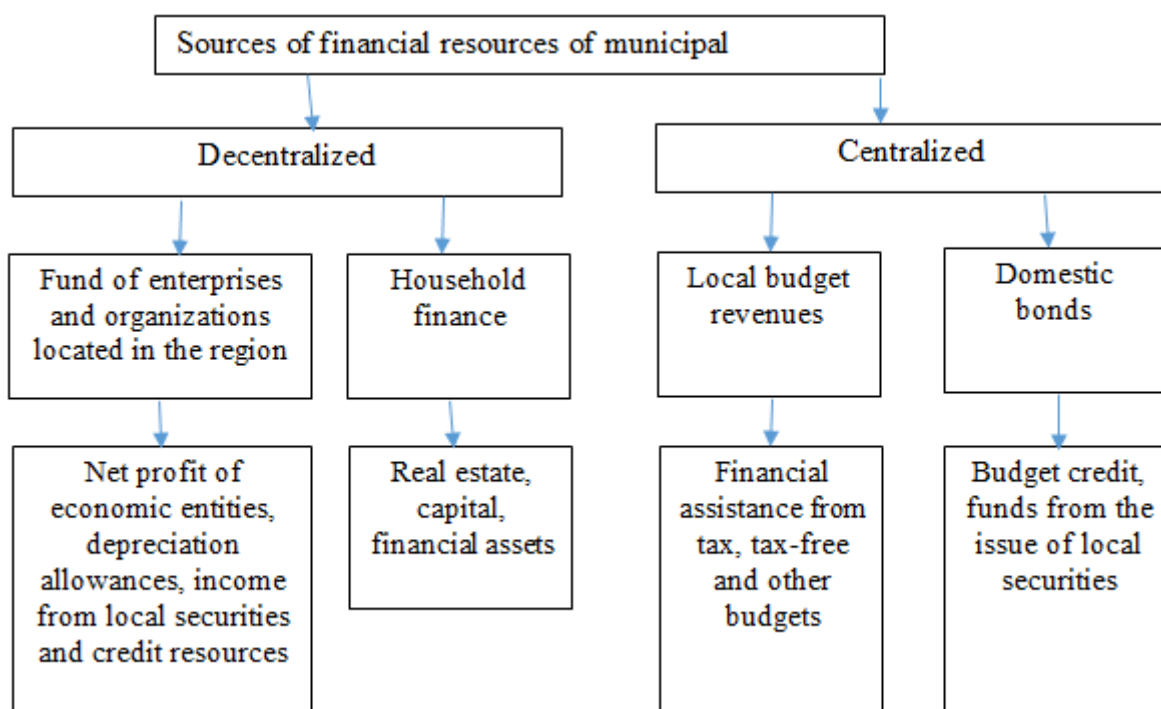
D. Rakhimova conducted research on some aspects of regional economic policy in her scientific works. Having studied foreign experience, it is recommended to implement economic policy in areas with difficulties in the following directions:

- to provide financial assistance in the form of non-refundable subsidies within specific projects;
- to attract foreign capital (especially to free economic zones);
- to conduct a stable policy on supporting small business and private entrepreneurship;
- to introduce the preferences regime;
- the infrastructure development.

G. Revnyakov points out three directions in relation to the implementation of financial policy and cites as the following: investment policy, monetary policy and budget-tax policy. According to his research, financial potential should be taken into account, the involvement of important projects to increase the importance of regional financial and credit institutions in the development of a unified investment policy in the region, and the budget-tax policy is approached as the regulation of local budgets and taxes paid in regions.

S. Mishina represents that financial resources of the municipal structure are divided into two

groups in a centralized and decentralized form. Local budget revenue (tax, non-tax and financial assistance from other budgets) brings municipal bonds, while decentralized funds include economic entities and household finance (Figure 1.).



**Figure 1. Sources of financial resources for municipal structures**

It can be seen from the scientific conclusions of the above-mentioned Russian scholars that its directions and income bases have a special place in the regional financial policy. The following conclusions can be formed based on this:

First of all, it has to be developed the specialization theory in regional investment policy. It is appropriate to pay attention to D. Ricardo's theory of relative advantage and specialization. In fact, we should think that it is necessary to harmonize the investment activity in order to form the exchange of goods and services between regions on the scale of our country. In this regard, the adoption of the Presidential Decree of the Republic of Uzbekistan dated May 11, 2020 No. PD-4709 "On additional measures for the specialization of the territories of the Republic for the cultivation of agricultural products" was one of the first important steps. In our opinion, it is necessary to harmonize investment activity with the priority of specialization in improving the financial policy of the regions.

Secondly, we do not believe that it is enough to focus only on strengthening the income base when developing regional directions for the formation of the budget and tax policy. Therefore, it is necessary to pay special attention to its place in the implementation of budget expenditures from a territorial point of view.

Thirdly, it is to focus on the development of the financial market, which does not exist in Uzbekistan, in the formation of centralized financial resources. In regions, the issue of attracting funds can be complicated through the issuance of local bonds. For this reason, we should think that it is necessary to expand the regional powers to deposit the free funds of the budget. According to the 125<sup>th</sup> Article of the Budget Code of the Republic of Uzbekistan, the Ministry of Finance determines the amount of temporarily idle funds in commercial banks. In our opinion, the introduction of the possibility of independent management of expenses and tax policy serves as one of the main factors of the implementation of the financial strategy in the formation of the regional budget. This requires the authority to place the funds in the single treasury account in the regional section into deposits in the regional section. The Ministry of Finance will help to regulate regional financial independence, the development of certain financial rules and criteria.

At the same time, with the Presidential Decree of the Republic of Uzbekistan No. PD-5283 of December 13, 2017, aimed at further liberalization of territorial financial powers, "On additional measures to increase the financial freedom of local state authorities, and to strengthen the responsibility of tax and financial authorities in order to ensure the completeness of receipts to local budgets". The decree was adopted that was determined to increase the financial freedom and responsibility of the local government bodies, and the strengthening of the budget revenue base was emphasized as the main priority.

**Table 1. Fundamentals of a methodological approach to strategic planning**

Methodological approach	Tools and implementation methods	Results
To ensure sustainable development based on balanced "nature-population-economy" principles	Continuous-functional analysis; Systematic analysis; Statistical and documentary analysis; SWOT, PEST and expert analysis;	To analyze of the socio-economic perspective of the municipal structure Analysis of municipal, household and farm management
To implement an institutional approach by assessing formal and informal institutions and identifying the dominant sector in the socio-economic development of the area	To organize collective activities Institutional analysis Using a questionnaire, an expert survey	Goals and objectives of the strategic direction List of projects and events and performers Strategy implementation mechanism
To implement a social approach with determination of the level of integration of local structures	To plan the participation of local authorities Social analysis Survey of households, interviews with heads of households, modern-innovative activities	Strategic Development Group Program of population involvement Household and business panel (data)

In our opinion, it is important to create conditions for free disposal of expenses in the formation of regional financial policy. In this regard, the approach presented by N. Kulikova and N. Sergeeva to strategic development can be cited in the table 1. N.Kulikova and N.Sergeeva focus on the private sector in the formation of regional financial strategy. It also emphasizes the financial activities of business entities and households. Notably, it is recommended to use factors of relative superiority of institutional structures in regions in the conclusion. At the same time, methods analyzing for each priority are given.

The emergence of regional finance should be explained by certain aspects. In this case, the structure of the state is the most important factor, and its form is important in implementing regional finance. It is also closely related to the degree of distribution of financial authority between central and local authorities.

The 122th Article of the Constitution of the Republic of Uzbekistan stipulates the following provision:

“The Republic of Uzbekistan has its own financial and monetary system. The state budget of Uzbekistan consists of the government budget, the budget of the Republic of Karakalpakstan and local budgets”.

The existence of this provision specified does not mean achieving full legal and financial independence in the organization of regional finance in the municipal constitution of our country. Therefore, it is appropriate to develop the upper and lower limits by the central government authority in the development of the financial strategy. In this context, it is necessary

to pay attention to the development of local budgets within the framework of state-wide reforms in the development of the financial strategy.

In general, it is necessary to take into account that the structure of states has two forms. They are federal and unitary. In the encyclopedic dictionary of the Republic of Uzbekistan, the existence of the following essences of the federal state is noted: a) in the nature of the internal structure of the state; b) in the nature of relations between the center and parts of the federal state; c) manifests itself in the nature of the rights of the subjects of the center and the federal state.

A unitary state is divided into administrative-territorial units, while a federal state is made up of subjects. Subjects can be state (this applies primarily to republics), national-territorial (autonomous) structures, or territorial units with a special status that turns them into territorial-state (state-territorial) units. The level of centralized management and regulation of the entire state's life is much higher in a unitary state, while the most important issues of the country's life are resolved at the level of the federation in a federal state.

Briefly, the formation of regional finance remains a component of the central financial policy under the conditions of Uzbekistan. Therefore, the financial strategy of regional finance should maintain compatibility with reforms at the national level or be implemented within it.

In our opinion, the role of the budget-tax policy is incomparable. Regardless of the state structure, fiscal policy remains relevant in the formation of regional finance. The main difference is expressed by the degree of relevance of the powers of implementation of its instruments. Before analyzing the scientific approaches of scholars and experts in the formation of regional finance and economy, we will try to study the current situation in the legislation of Uzbekistan. It is known that tax relations appear as a primary factor of fiscal policy in regions

According to the 123th Article of the Constitution of Uzbekistan, "A single tax system is valid in the territory of the Republic of Uzbekistan. The rule that only the Supreme Council of the Republic of Uzbekistan has the right to introduce taxes. The existence of this principle determines that the legislative body has the sole authority in the implementation of tax policy in Uzbekistan. This means that regional state authorities are not allowed to introduce taxes. However, it is established that the regions have the main authority in the introduction of the taxes attached to them and the formation of their rates.

The legal basis of territorial financial policy is defined in the Law of the Republic of Uzbekistan dated September 2, 1993 No. CUR-913-XII "On Local State Power". In particular, the 24<sup>th</sup> Article of the law states that one of the powers of the Council of People's Deputies is to "determine the rates of local taxes and other mandatory payments within the limits set by law." It can be understood that the introduction of taxes is not envisaged by local councils, but it is possible to set up tax rates without exceeding the upper and lower limits.

According to the 25<sup>th</sup> Article of this law, the powers of the governor may include "increasing and decreasing coefficients, taking into account the characteristics of the regions and the place of activity, into the rates determined by separate taxes determined by the law." The fact that it is possible to stratify tax rates as a mean of influence from a regional point of view reflects that the formation of existing tax rates should be the main priority of the financial strategy in Uzbekistan. Another direction of fiscal policy is the execution of budget expenditure, which also has some independent powers of local authorities. In the Article 24th of the Law No. CRU-913-XII, the local councils of People's Deputies are empowered to review, accept and approve reports on the regional budget.

One of the important changes introduced in 2013 to this law No. CRU-913-XII is explained by the fact that it is allowed to create extra-budgetary funds at the local level. According to the 81<sup>st</sup> Article, it was introduced and the following was reflected in it:

Regional, district, city Council of People's Deputies may establish extra-budgetary funds, which include the following:

- voluntary contributions and donations of citizens, enterprises, institutions and organizations, excluding budget organizations;
- other extra-budgetary funds not prohibited by law;
- the funds of regional, district, city extra-budgetary funds of local self-governing bodies remain in personal treasury accounts, cannot be withdrawn and are spent according to the decision of the relevant Council of People's Deputies and the mayor.

Provision of financial independence and their disposal shows the necessity of a financial strategy in regional extra-budgetary funds formation. The reason is that it is important to introduce justified financial strategies in making regional financial decisions with this rule.

The Presidential Decree of the Republic of Uzbekistan dated August 22, 2018 No. PD-3917 "On measures to ensure openness of budget information and active participation of citizens in the budget process" has been adopted and served to expand the financial powers of regional finance. According to the decree, the mechanism of directing citizens' participation in the distribution of budget funds, at least 10% of the additional resources of district (city) budgets, to activities formed on the basis of public opinion was envisaged.

With the Presidential Decree of the Republic of Uzbekistan dated April 4, 2021 No. PD-5072 "On additional measures to ensure active participation of citizens in the process of budget formation", citizens have the opportunity not only to control the processes of budget formation, but also to participate in spending budget funds from the process of formation was created.

### Summary

A new procedure was gradually introduced to direct 5% of the total costs of the approved budgets in districts and cities to finance activities formed on the basis of public opinion in order to expand public participation in the process of budget formation. Initially, this procedure was introduced in one district or city in each region of Uzbekistan (14 in total), and this procedure has been introduced in all districts and cities of the country from January 1, 2022.

In order to implement such goals, 92.7 billion UZ sums have been allocated from the government budget in addition to the budgets of districts and cities in 2021. These funds will be included in the parameters of district and city budgets at the beginning of the 2022. In addition, the minimum amount of additional funds of district and city budgets allocated to the financing of activities formed on the basis of public opinion has been increased from 10 percent to 30 percent, starting from July 1, 2021.

In our opinion, the initial steps have been taken in regional state authorities in ensuring the execution of local finances towards financial independence. This shows the necessity of forming a financial strategy in their activities. Therefore, the formation of regional finance is represented.

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